

Financial impacts and disclosures for insurers

The current landscape

There is limited precedent into how COVID-19 will impact the financial markets. Drawing on experience with past major events, including the credit crisis, it is important to be prepared for related financial results volatility and associated messaging to stakeholders as well as impact of emergency regulatory action and related disclosures.

Impacts will likely be felt across the reporting landscape



Financials

Market volatility and loss emergence will drive both risk and financial statement impacts that insurers should plan for and analyze



Disclosures

Financial statement users will expect insurers to provide additional insight into COVID-19's impact on their business and investment portfolio



MD&A

Analysts will look for interest rate sensitivity insights, both short- and medium-term, outlooks for capital position, and clarity around significant estimates and assumptions



Controls

COVID-19 brings complications, both to the performance and review of SOX controls, that may require new controls to be designed or processes re-tooled

COVID-19 financial impacts and insurance areas of focus

Focus area / challenge	F/S Risk	P&L Impact	B/S Impact	Considerations and response
Equity valuation	High	Moderate	High	<ul style="list-style-type: none"> Assess policies and any 'toll gate' type indicators that may need to be reassessed given longer-term outlook for recovery of market value Review Level II and Level III valuations and ensure methodology takes into account indicators as of the balance sheet date
CECL	High	Moderate	Low	<ul style="list-style-type: none"> If not currently codified, assess policies for credit vs. interest rate movement in AFS debt/preferred portfolio Refresh economic scenarios for current market conditions and potential prolonged economic recession; consider if use of extreme economic scenarios would yield reasonable results (in light of interest rate impact masking credit concerns) Assess the impact of the "Coronavirus Aid, Relief, and Economic Security Act (CARES Act)" on both CECL implementation and TDR considerations (see below section) Evaluate troubled debt restructuring (TDR) or purchased credit impaired (PCI) implications of new fixed income acquisitions
Reinsurance	Moderate	Low	Moderate	<ul style="list-style-type: none"> Engage Legal to review treaty terms for any potential exclusions covering pandemics Closely monitor treaty limits and, if necessary, begin planning for any reinstatement costs or potential renegotiations Adjust, as necessary, counterparty risk assessments and discounting
Goodwill / VOBA	Low	Low	Low	<ul style="list-style-type: none"> Evaluate whether the potential economic downturn (both in market and macroeconomic terms) constitutes a "triggering event" requiring a detailed assessment of intangible asset impairment Adjust close calendars to allow time for this analysis and pre-close engagement with relevant parties who have begun to assess impacts
ALM, hedging and risk management	High	High	Moderate	<ul style="list-style-type: none"> Consider potential portfolio changes that achieve better duration match, as gaps may be exacerbated in this extremely low interest rate and volatile FX environment Assess impacts to securities lending activities, including monitor collateral posting and liquidity of portfolio Persistent low interest rates may cause insurers to add additional reserves through loss recognition/cash flow testing
Capital Requirements (Solvency II, CTE 97, etc.)	High	Low	High	<ul style="list-style-type: none"> Closely monitor changes in NAIC ratings Analyze debt covenants and potential violations; develop mitigation and communication plan Preemptively discuss changes to terms or exemptions from lenders Review solvency capital requirements models and calculations to validate for market irregularities and unexpected results in model output
DAC and shadow DAC	Low	Low	Moderate	<ul style="list-style-type: none"> Significant unrealized loss movement could artificially spike DTAs; Conduct qualitative analysis which should assess likelihood of actually recognizing these losses and consider adjusting valuation allowance accordingly
STAT reporting	Low	Low	Moderate	<ul style="list-style-type: none"> Conduct planning and scenario analysis to assess potential impacts on annual contribution amounts to the asset valuation reserve – which could substantially increase given market downturn Consider subsequent event disclosures and impact on RBC for filing audited F/S

SEC filing deadline relief



On March 25, 2020, the [SEC issued an order](#) that gives public companies an additional 45 days to file certain disclosure reports that would otherwise have been due between March 1 and July 1, 2020, if specified conditions are met. To use the relief allowed by the order, a registrant must file a current report on Form 8-K (or Form 6-K, as applicable) that discusses, among other things, (1) Why the issuer is "unable to meet a filing deadline due to circumstances related to COVID-19," (2) The estimated date by which the related filing will be made, and (3) If appropriate and material, a risk factor describing the impact of COVID-19 on the registrant's business.

The SEC will continue to monitor the impact of COVID-19 and may extend the time period for the relief if needed. Filers are advised to consider the guidance presented by the SEC Division of Corporation Finance communication dated March 25 regarding disclosure considerations pertaining to COVID-19.

On March 27, 2020, the CARES Act was [signed into law](#) and provides temporary relief to insured depository institutions and credit unions with the option to (1) defer the implementation of CECL potentially until December 31, 2020 and (2) suspend requirements under US GAAP for certain loan modifications to be considered TDRs for loans not more than 30 days past due as of 12/31/2019. Insurance entities were not explicitly granted the temporary relief detailed above by the act. Deloitte anticipates the CARES Act's passage to trigger further guidance and clarification to be issued by the SEC and/or FASB, and will continue to monitor and update our publications accordingly.

Financial impacts and disclosures for insurers

Thinking through disclosures and messaging



COVID-19-specific disclosures



Investor guidance



Financial instruments



MD&A and risk factors

COVID-19-specific disclosures

- Communicate with Investor Relations and industry groups to identify most pertinent information for disclosure. The number of cases and total benefits paid/reserves released are likely to be base level disclosures
- Assess need to update these disclosures in subsequent event foot-note based on claim development post March 31

Investor guidance

- Consider potential impacts on forecasts/guidance and provide updates to investors as needed to manage expectations
- For analyst calls, perform sensitivity analysis around mortality rates and economic factors (interest rates, equity returns, etc.) and be prepared to clearly communicate potential exposure



Financial instruments

- Consider providing additional insight into hedging program and impact from interest-rate volatility and counterparty default exposure
- Include, if applicable, information around purchases made at current pricing and context into any significant loss-generating sales
- Useful OTP policy information to clarify any impairment taken in Q1

MD&A and risk factors

- Assess whether economic and market conditions or potential claim exposure is such that a risk factor needs to be added concerning COVID-19
- Consider tailoring MD&A to discuss trends or uncertainties that have had, or are reasonably expected to have, a material impact on income

Internal control considerations

With the potential for additional disclosures, there will be new or adjusted quantitative calculations and data required to support those disclosures. Entities will need to ensure that they have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues. As such, companies should be proactive in assessing controls that will need to be designed and implemented over any newly-key EUCs, key reports, or business processes. Further, **as risk assessments are being performed and reviewed, the impact of COVID-19 should be considered as a factor** when determining ICFR risk in financial statement lines and business processes where the market and macroeconomic impacts are most felt.

Issuers are reminded that any changes in internal controls that have materially affected, or are reasonably likely to materially affect, entities' ICFR must be disclosed in Item 4 of Form 10-Q (or the equivalent).

Deloitte support

As your organization responds to the impacts stemming from COVID-19, Deloitte stands ready to help you tackle your most complex strategic, financial and operational issues. A sample of areas in which we can assist include:



Accounting, finance and actuarial BAU support

- General accounting (US GAAP, Stat, IFRS)
- Actuarial
- External financial reporting
- Management reporting
- Control support and guidance



Remote close risk management

- Remote close risk assessment
- Real-time monitoring
- Close support
- Issue identification, triage, and resolution
- Regulatory affairs monitoring and response



Hedging, volatility, and risk management assessments

- Risk management strategy development
- Hedge accounting and effectiveness assessment frameworks
- Analytics and analysis
- FX exposure identification and mitigation

Deloitte Insight



Accounting, disclosure, and internal control considerations related to coronavirus disease 2019



Potential implications of COVID-19 for the insurance sector



The heart of resilient leadership: Responding to COVID-19
A guide for senior executives

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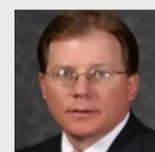
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